P&A COFFEE NEWSLETTER
international marketing
Year 03 - No. 32 - March 11, 2010

COFFIDENTIAL

ISSUES NOS. 1 TO 31 OF COFFIDENTIAL CAN BE FOUND AT SITE www.peamarketing.com.br

GROWERS AFFECTED BY DROUGHT MAY RECOVER LOSSES

Growers in Espírito Santo that have lost large shares of their production due to the strong drought at the beginning of the year will be able to recover their losses from the insurance program called "Proagro Mais". This option is granted to growers that use Pronaf funding - a line of credit offered by the Federal Government to small holders - if damages can be proven. Proagro Mais protects coffee growers against damages caused by adverse weather conditions such as hailstorms and droughts. There have been no rains in the state of Espírito Santo in the last two months.

Source: FMZ Radio Station

CAFÉ DO CERRADO LAUNCHES RESEARCH NETWORK

The Café do Cerrado Foundation has launched a Research Network that will develop projects and studies directed specifically at the needs of the Cerrado Mineiro coffee region. Minas Gerais' Cerrado is one of the main coffee producing areas of Brazil, with 8 cooperatives and 6 associations. The Café do Cerrado Research Network will be managed by a Board of Directors, composed of federal universities, research companies and active coffee leaders; it will also have a Board of Consultants, formed by the region's coffee associations and cooperatives, and a technical staff. Results of the studies conducted by the Network will be gathered twice a year into technical guides to be distributed to coffee growers.

Sources: Fundação Café do Cerrado and CaféPoint

BAHIA INVESTS ON QUALITY

The state of Bahia, in the northeastern region of Brazil, has been gaining recognition for its specialty coffees that have won important quality competitions recently. High quality beans are grown in the traditional area known as "Planalto" (high plateau), which has undergone a revitalization process since 2001 when growers from places such as Chapada Diamantina and Vitória da Conquista decided to invest in the production of quality coffees as a way to fight the low price crisis. However the majority of production still consists of standard quality coffees. Bahia is today the fourth largest coffee producing state in the country, with 1.8 million bags harvested in 2009 (1.3 million bags of Arabica and 500 thousand of Robusta).

Source: Agência Estado

SÃO PAULO COFFEE CHAMBER DISCUSSES GEOGRAPHICAL INDICATION

The Coffee Sector Chamber of the state of São Paulo gathered for its first meeting of the year. One of the subjects discussed was value addition by means of a project to seek the Geographical Indication certification of coffees grown in the region of Espírito Santo do Pinhal, where P&A is located. Coffee produced in this area is known for its century-old historical tradition as well as its good quality, recognized in various state and national competitions. Geographical Indications certify that coffees grown in a specific region, under distinctive conditions, present unique features. GI certifications recognize growers for their work and are a good marketing tool for their coffees.

Source: P&A International Marketing

BRAZILIAN CONSUMPTION BEYOND 18 MILLION BAGS AND CLOSE TO 6KG PER CAPITA

Coffee consumption in Brazil grew beyond industry expectations in 2009, at a rate of 4.15%, to reach 18.4 million bags. Per capita consumption reached 5.81 kg/year of green coffee (4.65 kg/year of roasted coffee), almost the same as the national record registered in 1965. This growth is related not only to additional cups of conventional filtered and espresso coffee but also to other preparations like cappuccinos and other milk-based coffee beverages that are becoming popular among Brazilians. The industry expects domestic consumption to increase at least 5% more in 2010.

Source: A Folha de São Paulo

ABIC PROPOSES EMERGENCY PLAN TO BOOST INDUSTRY

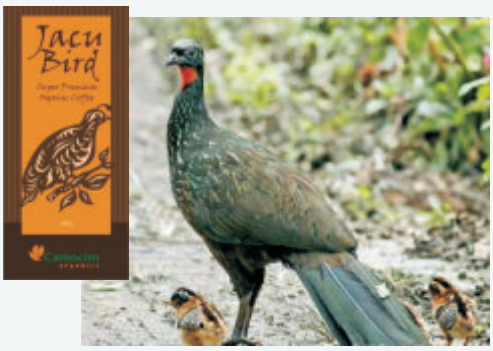
Despite the continuous growth in domestic consumption, coffee industries in Brazil have been going through a critical phase. Some of the problems being faced by roasters are low coffee prices in retail, which have changed little since 1994, the high concentration of supermarket chains that squeeze coffee suplliers' margins, and the intense competition within the sector due to the recent wave of consolidation among large roasting companies. To counter these difficulties, ABIC, the Brazilian Coffee Roasters' Association, met with the Planning Committee of the Ministry of Agriculture to request emergency measures, such as monthly auctions of government stocks and financing at favorable conditions. There are currently approximately 1,200 roasters in the country, 95% of which consist of medium and small companies that have been the most affected by the economical situation.

Source: ABIC

COFFEE SHOPS IN SEARCH OF MICROLOTS

Coffee shops in Brazil are now offering exceptional quality coffees produced with extreme care, available only in limited editions. Commonly known as microlots, these are coffees of one single variety, grown at a specific time, under special conditions, and considered to be among the best in Brazil. Quality competitions usually act as showcases for microlots, later acquired by coffee shop owners. Since small lots have better chances of reaching important quality parameters, these coffees present a complexity that receive better grades than the average fine products. Microlots are a rather new phenomenon in producing countries, but are considered already a trend in mature markets, such as the USA and Japan. Currently only 100,000 bags of Brazilian coffees are sold as microlots (0.25% of the country's average production).

Source: CaféPoint



JACU (BIRD) COFFEE PRODUCED IN BRAZIL

Similarly to Kopi Luwak, the exotic coffee from Indonesia, Jacu Coffee is produced from the beans found in the excrements of the bird Jacu that eats coffee cherries. One hundred and fifty Jacu birds are raised free-range style in Camocim Estate, in Espírito Santo, Brazil, because it is a species under risk of extinction. Each year Camocim produces a total of 12 sixty-kilo bags of Jacu coffee retailed at R$272/kg (US$ 68/lb), 30 times the price of traditional coffees.

Source: Estado de Minas

BRAZILIAN WOMAN AND COFFEE COSMETICS AMONG FINALISTS FOR WORLD ENTREPRENEURSHIP PRIZE

A young Brazilian woman from Minas Gerais state is among the 10 finalists for the Empretec Women in Business Award 2010, to be held in Geneva in April. The Brazilian contestant, selected among 37 candidates from 18 countries, created Kapeh, a cosmetics brand whose products are made with extract of certified coffees. Kapeh's line of products is composed of soaps, shampoos, moisturizers, shower gels and perfumes and can be found in 150 points of sale around Brazil. Empretec is a program developed by UNCTAD (the United Nation Conference on Trade and Development) to promote entrepreneurship in developing countries.

Sources: SEBRAE and O Estado de São Paulo

P&A IN WORLD COFFEE CONFERENCE HELD IN GUATEMALA

Coffee chain representatives from around the globe gathered for the third edition of the ICO's World Coffee Conference, held in Guatemala on February 26 to 28. Over the course of three days, 1,400 stakeholders in the world coffee business participated in panels and discussions regarding the economic, social and environmental sustainability of the coffee sector. P&A's Carlos Brando made a presentation about how harvesting strategies can be employed to improve the livelihood of pickers (and growers) in producing countries. The presentation, considered controversial by some, challenged participants to rethink some established paradigms in coffee harvesting; its relevance caused it to be mentioned by several speakers who presented afterwards and its recommendations to be included in several summaries made. The slides of the presentation may be accessed at http://dev.ico.org/wcc2010_presentations.asp

Sources: CoffeeClub Network and P&A Marketing International

THREATS AND OPPORTUNITIES FOR BRAZILIAN ARABICAS

It is known that the strengthening of the Brazilian currency, the Real, in relation to the US Dollar and other major currencies is corroding the profitability of coffee growers in Brazil, especially Arabica growers whose production is mostly exported. Robusta growers, who sell almost all of their production above international prices to the domestic roasting and soluble industries, are much less exposed to the adverse effects of a strong Real.

It is also known that the Brazilian coffee business has always shown a unique ability to reinvent itself at times of crisis and to recover from what may have been judged as an insurmountable obstacle. This has been the case with frosts, rust leaf disease, increasing labor costs, etc. The current threat is the adverse exchange rate.

The recent World Coffee Conference (WCC), sponsored by the International Coffee Organization (ICO) in Guatemala, has highlighted several tendencies that may open up new opportunities for Arabica growers in Brazil although some tendencies may at first seem more of a threat than an opportunity, like global warming. Besides climate change, other trends that may favor Arabica growers in Brazil are the firm growth of world coffee demand, the prospect for a continuing shortage of washed coffees and a growing market for carbon credits.

Let's focus on climate change first. If most current coffee areas in Brazil may indeed be affected by increasing temperatures and more erratic rainfall patterns, the strategies for adaptation and mitigation under discussion open up interesting opportunities. Leaving new varieties being developed aside, the shading of existing areas may not only have positive impacts on the quality of coffees to be produced but, most importantly, provide additional income from the shade trees, be it fruit production, spices and timber itself. Shading will of course bring yields down but fertilizer application, which is one of the main cost components of producing Arabica in Brazil, will fall too. Three-fourths of the coffee produced in Brazil is grown in soils with moderate to low fertility that will benefit from shading.

Since the 2.1 million hectares (5.2 million acres) under coffee in Brazil today are not shaded, except for test plots and a few on-going new projects, carbon absorption by the new shade trees would be enormous, in fact larger than in any other coffee growing country. The opportunity to generate carbon credits will be huge and very welcome to alleviate the costs of reconversion.

Erratic rainfall patterns, that have already been a reality in the flowering seasons of 2008 and 2009, become more manageable as Brazil progressively moves into mechanical harvesting. If, due to the high cost of labor, it is impossible to have more than one round of manual strip harvesting, mechanical harvesting makes the practice of 2 or 3 picking rounds feasible, with positive impacts on quality. This practice also paves the way for harvesting a larger percentage of fresh cherries and to produce more washed coffee.

Unknowingly to most people because not reflected in coffee statistics, Brazil will in the 2010 crop consolidate its position as the second country to wash the most Arabica coffee in the world, after Colombia only. If global warming may in the middle run accelerate this trend to produce more washed coffee in Brazil, the current scarcity of washed coffees has already accelerated this tendency in the short run. The price premiums for Brazilian pulped natural (semi-washed) and washed coffees have increased substantially in the last 6 to 8 months and created a strong demand for new wet milling equipment. Brazil is progressively carving a space for its pulped natural and washed coffees in the “world coffee blend”, with special participation in espresso blends.

One of the strongest messages coming out of the WCC was that in the short run demand is not a problem but supply may be, specially for some Arabicas. If the largest supplier in the world has its competitiveness in check, where will the solutions come from? Will prices react to open up the appetite for Arabica growers in Brazil and elsewhere to increase their production? If prices do not react, the question may be whether and how will Brazil again pull a rabbit out of a hat! Brazil's track record indicates that it just may...

Brazilian Prices

February 26, 2010

Main Producing Regions / Farm Gate

Arabica Naturals (R$/ 60 kg bag)	
Cerrado-MG fair average quality T.6	265,00
Mogiana-SP fair average quality T.6	270,00
South Minas fair average quality T.6	270,00

Arabica Pulped Naturals (R$/ 60 kg bag)	
Cerrado-MG	295,00
South Minas	295,00

Conilon/ Robusta (R$/ 60 kg bag)	
São Gabriel da Palha-ES fair average	196,00

BM&F (US$/ 60 kg)	
Mar 2010	159,50
Set 2010	154,50
Dez 2010	157,50

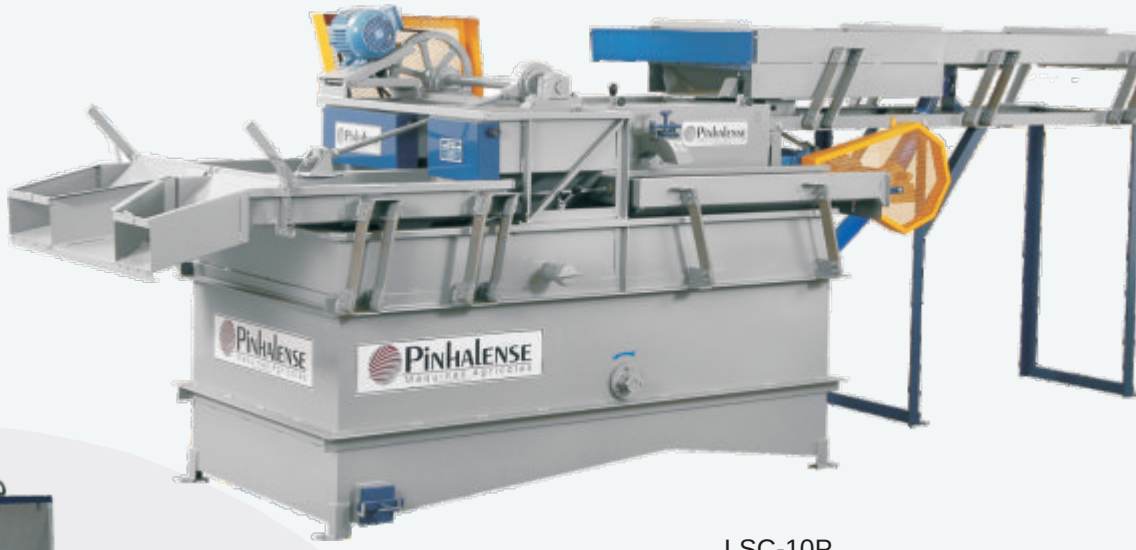
Real R$/ Dolar US$	
February 2010	1,80

CLIMATE CHANGE AND COFFEE CHERRY SEPARATION

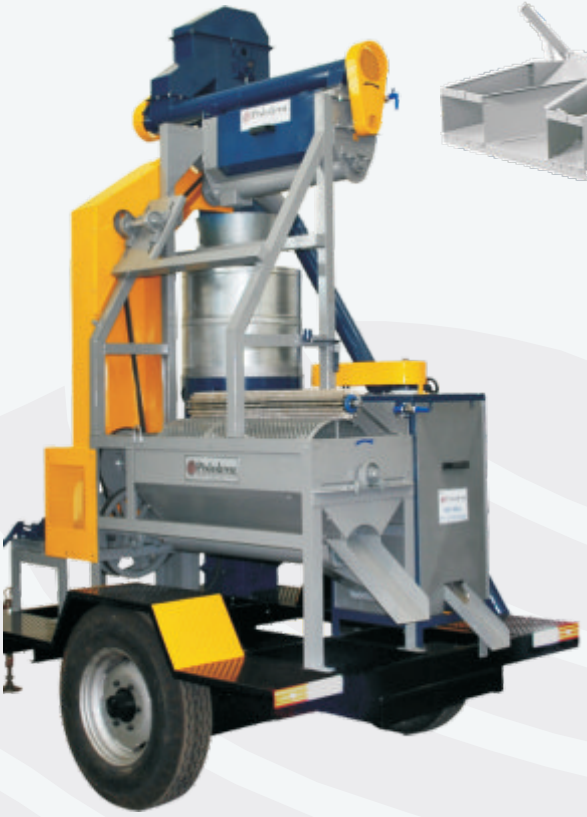
The panel on climate change at the World Coffee Conference addressed the trends for temperature to increase and rainfall to become more erratic in coffee areas. Whereas the former is a strong possibility that only time will confirm, the latter seems to be already happening and what is to be confirmed is if it has arrived to stay.

Erratic rainfall interferes with coffee flowering and causes the maturation of cherries to be less uniform. As a result, chances are that more cherries that are not fully ripe will be picked, along with the ripe ones, irrespectively of the harvesting system used. This requires the separation of cherries with different degrees of maturation and the separate pulping of these cherry fractions in order to produce top quality washed coffee from the fully ripe cherries and to get the best possible quality and price out of the other fractions.

Pinhalense has mastered the techniques of mechanical cherry separation and the separate pulping of cherries with different degrees of ripeness at a level that is unparalleled today. This is achieved with the help of the mechanical siphon, developed and patented by Pinhalense, and Pinhalense's unique screen pulper that enables the separate pulping of fully ripe, partially ripe and unripe cherries, if so required.



LSC-10P
MECHANICAL SIPHON



ecoflexmob
SCREEN PULPER, REPASSER AND
MUCILAGE REMOVER

The mechanical siphon LSC separates over-ripe and partially dry cherries from the fully ripe, partially ripe and unripe ones. The screen pulper that equips the ecoflex pulpers and compact ecologic wet mills can pulp only the top quality ripe cherries and discard the partially ripe and unripe ones. These less than optimum quality cherries – partially ripe and unripe – can then be pulped, together or separately, by the same screen pulper, using special techniques and procedures developed by Pinhalense.

The advantages of this multiple stage separation and the separate pulping of the different cherry fractions are many:
- separation of cherries in the mechanical siphon LSC may avoid fermented cups;
- the innovative screen pulper enables the full elimination of astringency in the top quality cups;
- the screen pulper ensures that the best quality and price are obtained from each cherry fraction;
- different products are created for different markets, with different organoleptic features and prices; and
- Pinhalense pulping systems avoid physical damage to parchment and beans, the loss of coffee with pulp, and pulp mixed with parchment.

The advanced Pinhalense wet milling systems make it possible to cope with multiple flowerings, to handle cherries with different degrees of maturation and to improve the efficiency of harvesting without losses in coffee quality and with additional gains from getting the most out of each cherry fraction picked.